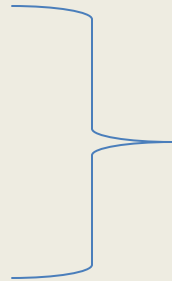


WHY IS MY ACCOUNTING SYSTEM INADEQUATE FOR GOVERNMENT CONTRACT COST ACCOUNTING?

Presented by
Martin A. Sullivan, President
M.A. Sullivan Consulting, Inc.

WHY IS MY ACCOUNTING SYSTEM INADEQUATE FOR GOVERNMENT CONTRACT COST ACCOUNTING?

Financial Accounting
Cost Accounting
Tax Accounting



CPA

Government Contract Cost Accounting



DCAA
DCMA

WHY IS MY ACCOUNTING SYSTEM INADEQUATE FOR GOVERNMENT CONTRACT COST ACCOUNTING?

Main causes of inadequate government contract cost accounting systems:

- Cash basis accounting
- No job cost system
- No Indirect rate structure
- Not identifying unallowable cost

PURPOSE OF WEBINAR

This Webinar provides tips and answers to questions on preparing for an accounting system review by the Defense Contract Audit Agency (DCAA) performed under Federal Acquisition Regulations (FAR) requirements.

Subjects to be covered are pertinent FARs in addition to what to expect from the DCAA audit process.

ACCOUNTING SYSTEM PRESENTATION OUTLINE

A. Introduction

1. Presenter's Profile and Qualification
2. Contracting Community

B. Accounting System

1. Regulations
2. DCAA Audits of Accounting Systems
3. Commercially Available Accounting Systems

C. Conclusion

1. Complexity
2. Worthwhile
3. Contact Information

PRESENTER'S PROFILE AND QUALIFICATION

Presenter's Profile

- M.A. Sullivan Consulting, Inc.
- Martin A. Sullivan
- DCAA Experience
- Personal History

PRESENTER'S PROFILE AND QUALIFICATION

Qualification

Answers given by M.A. Sullivan Consulting, Inc. are being provided in an educational format without full knowledge of all the details of a participant's circumstances and without the opportunity to perform in-depth evaluation of a participant's accounting system. As a result, M.A. Sullivan, Consulting, Inc. and its employees cannot assume liability for advice being given in this Webinar. Before acting on any advice we provide, you should consult with us or another competent source. This Webinar presentation is based on publicly available information and my experience working with DCAA. M.A. Sullivan Consulting, Inc. and its employees do not represent DCAA or any other government agency.

CONTRACTING COMMUNITY

Procurement

Defense Logistics Agency (DLA) and Other Federal Agencies

Administrative

Defense Contract Management Agency (DCMA)

Audit

Defense Contract Audit Agency (DCAA)

ACCOUNTING SYSTEM

Regulations

What gives the government the right to look at a contractor's books and records?

FAR Part 9, Contractor Qualifications

FAR Part 42-- Contract Administration and Audit Services

ACCOUNTING SYSTEM

Regulations

FAR Part 9, Contractor Qualifications

In general, Part 9 prescribes policies, standards, and procedures pertaining to prospective contractors' responsibility; debarment, suspension, and ineligibility; qualified products; first article testing and approval; contractor team arrangements; defense production pools and research and development pools; and organizational conflicts of interest.

ACCOUNTING SYSTEM

Regulations

FAR Part 42-- Contract Administration and Audit Services

This part prescribes policies and procedures for assigning and performing contract administration and contract audit services.

For contractors other than educational institutions and nonprofit organizations, the cognizant Federal agency normally will be the agency with the largest dollar amount of negotiated contracts, including options.

Normally, for contractors other than educational institutions and nonprofit organizations, the Defense Contract Audit Agency (DCAA) is the responsible Government audit agency. However, there may be instances where an agency other than DCAA desires cognizance of a particular contractor. In those instances, the two agencies shall agree on the most efficient and economical approach to meet contract audit requirements.

ACCOUNTING SYSTEM

Regulations

What regulations should a contractor consider while developing an adequate accounting system?

FAR Part 31.2, Contracts with Commercial Organizations

FAR Part 99, Cost Accounting Standards

ACCOUNTING SYSTEM

Regulations

FAR Part 31.2-- Contracts with Commercial Organizations.

In general, Part 31.2 contains cost principles and procedures for the pricing of contracts, subcontracts, and modifications to contracts and subcontracts whenever cost analysis is performed and the determination, negotiation, or allowance of costs when required by a contract clause.

ACCOUNTING SYSTEM

Regulations

31.201-1 -- Composition of Total Cost.

- (a) The total cost, including standard costs properly adjusted for applicable variances, of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred, plus any allocable cost of money pursuant to 31.205-10, less any allocable credits. In ascertaining what constitutes a cost, any generally accepted method of determining or estimating costs that is equitable and is consistently applied may be used.
- (b) While the total cost of a contract includes all costs properly allocable to the contract, the allowable costs to the Government are limited to those allocable costs which are allowable pursuant to Part 31 and applicable agency supplements.

ACCOUNTING SYSTEM

Regulations

31.201-2 -- Determining Allowability.

- (a) A cost is allowable only when the cost complies with all of the following requirements:
 - (1) Reasonableness.
 - (2) Allocability.
 - (3) Standards promulgated by the CAS Board, if applicable; otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
 - (4) Terms of the contract.
 - (5) Any limitations set forth in this subpart.

ACCOUNTING SYSTEM

Regulations

31.201-3 -- Determining Reasonableness.

- (a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.
- (b) What is reasonable depends upon a variety of considerations and circumstances, including –
 - (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;
 - (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations;
 - (3) The contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and
 - (4) Any significant deviations from the contractor's established practices.

ACCOUNTING SYSTEM

Regulations

31.201-4 -- Determining Allocability.

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it –

- (a) Is incurred specifically for the contract (Direct Cost);
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received (Fringe, Labor Overhead)
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown (G&A).

ACCOUNTING SYSTEM

Regulations

31.201-5 -- Credits.

The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.

ACCOUNTING SYSTEM

Regulations

31.201-6 -- Accounting for Unallowable Costs.

- (a) Costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract.
- (b) The practices for accounting for and presentation of unallowable costs must be those described in 48 CFR 9904.405, Accounting for Unallowable Costs.
- (c) Statistical sampling is an acceptable practice for contractors to follow in accounting for and presenting unallowable costs.

ACCOUNTING SYSTEM

Regulations

31.202 -- Direct Costs.

- (a) Direct costs of the contract shall be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.
- (b) For reasons of practicality, the contractor may treat any direct cost of a minor dollar amount as an indirect cost if the accounting treatment --
 - (1) Is consistently applied to all final cost objectives; and
 - (2) Produces substantially the same results as treating the cost as a direct cost.

ACCOUNTING SYSTEM

Regulations

31.203 -- Indirect Costs.

- (a) After direct costs have been determined and charged directly to the contract or other work, indirect costs are those remaining to be allocated to intermediate or two or more final cost objectives.
- (b) The contractor shall accumulate indirect costs by logical cost groupings with due consideration of the reasons for incurring such costs.

ACCOUNTING SYSTEM

Regulations

31.203 -- Indirect Costs.

- (c) Once an appropriate base for allocating indirect costs has been accepted, the contractor shall not fragment the base by removing individual elements. All items properly includable in an indirect cost base shall bear a pro rata share of indirect costs irrespective of their acceptance as Government contract costs.
- (d) The method of allocating indirect costs may require revision when there is a significant change in the nature of the business
- (e) Separate cost groupings for costs allocable to offsite locations may be necessary to permit equitable distribution of costs on the basis of the benefits accruing to the several cost objectives.

ACCOUNTING SYSTEM

Regulations

31.203 -- Indirect Costs.

- (f) A base period for allocating indirect costs is the cost accounting period during which such costs are incurred and accumulated for allocation to work performed in that period.

ACCOUNTING SYSTEM

Regulations

31.205, Selected Costs.

FAR Part 31.205 identifies expressly unallowable costs.

FAR Part 31.205 consists of FAR Subparts 31.205-1 through 31.205-52

ACCOUNTING SYSTEM

Regulations

- | | |
|---|--|
| 31.205-1 Public relations and advertising costs | 31.205-15 Fines, penalties, and mischarging costs |
| 31.205-2 Reserved | 31.205-16 Gains and losses on disposition or impairment of depreciable property or |
| 31.205-3 Bad debts | Other capital assets |
| 31.205-4 Bonding costs | 31.205-17 Idle facilities and idle capacity costs |
| 31.205-5 Reserved | 31.205-18 Independent research and development and bid and proposal costs |
| 31.205-6 Compensation for personal services | 31.205-19 Insurance and indemnification |
| 31.205-7 Contingencies | 31.205-20 Interest and other financial costs |
| 31.205-8 Contributions or donations | 31.205-21 Labor relations costs |
| 31.205-9 Reserved | 31.205-22 Lobbying and Political Activity Costs |
| 31.205-10 Cost of money | 31.205-23 Losses on other contracts |
| 31.205-11 Depreciation | 31.205-24 Reserved |
| 31.205-12 Economic planning costs | |
| 31.205-13 Employee morale, health, welfare, food service, and dormitory costs and credits | |
| 31.205-14 Entertainment costs | |

ACCOUNTING SYSTEM

Regulations

- | | |
|--|--|
| 31.205-25 Manufacturing and production engineering costs | 31.205-38 Selling costs |
| 31.205-26 Material costs | 31.205-39 Service and warranty costs |
| 31.205-27 Organization costs | 31.205-40 Special tooling and special test equipment costs |
| 31.205-28 Other business expenses | 31.205-41 Taxes |
| 31.205-29 Plant protection costs | 31.205-42 Termination costs |
| 31.205-30 Patent costs | 31.205-43 Trade, business, technical and professional activity costs |
| 31.205-31 Plant reconversion costs | 31.205-44 Training and education costs |
| 31.205-32 Precontract costs | 31.205-45 [Reserved] |
| 31.205-33 Professional and consultant service costs | 31.205-46 Travel costs |
| 31.205-34 Recruitment costs | 31.205-47 Costs related to legal and other proceedings |
| 31.205-35 Relocation costs | 31.205-48 Research and development costs |
| 31.205-36 Rental costs | 31.205-49 Goodwill |
| 31.205-37 Royalties and other costs for use of patents | 31.205-50 [Reserved] |
| | 31.205-51 Costs of alcoholic beverages |
| | 31.205-52 Asset valuations resulting from business combinations |

ACCOUNTING SYSTEM

Regulations

FAR Part 99, Cost Accounting Standards.

Cost Accounting Standards (CAS) are all about allocating direct and indirect costs to intermediate and final cost objectives.

The most important part is FAR 9903.201-1(b)(3) which exempts contracts or subcontracts with small businesses from the CAS requirements.

However, the CAS requirements are now incorporated into the FARs. Furthermore, contracting officers normally incorporate contract clauses that require compliance with the requirements of 48 CFR 9904.401, Consistency in Estimating, Accumulating, and Reporting Costs; 48 CFR 9904.402, Consistency in Allocating Costs Incurred for the Same Purpose; 48 CFR 9904.405, Accounting for Unallowable Costs; and 48 CFR 9904.406, Cost Accounting Standard -- Cost Accounting Period, in effect on the date of award of this contract as indicated in 48 CFR Part 9904.

ACCOUNTING SYSTEM

Regulations

FAR Part 99, Cost Accounting Standards.

Subpart 9904.401 -- Cost Accounting Standard Consistency in Estimating, Accumulating and Reporting Costs

Fundamental Requirement

- (a) A contractor's practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.
- (b) A contractor's cost accounting practices used in accumulating and reporting actual costs for a contract shall be consistent with his practices used in estimating costs in pricing the related proposal.
- (c) The grouping of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices under paragraphs (a) and (b) of this section when such costs are accumulated and reported in greater detail on an actual cost basis during contract performance.

ACCOUNTING SYSTEM

Regulations

The following examples are illustrative of applications of cost accounting practices which are deemed to be consistent.

Practices Used in Estimating Costs for Proposals

1. Contractor estimates an average direct labor rate for manufacturing direct labor by labor category or function.

2. Contractor estimates an average cost for minor standard hardware items, including nuts, bolts, washers, etc.

3. Contractor uses an estimated rate for manufacturing overhead to be applied to an estimated direct labor base. He identifies the items included in his estimate of manufacturing overhead and provides supporting data for the estimated direct labor base.

Practices Used in Accumulating and Reporting Costs of Contract

1. Contractor records manufacturing direct labor based on actual cost for each individual and collects such costs by labor category or function.

2. Contractor records actual cost for minor standard hardware items based upon invoices or material transfer slips.

3. Contractor accounts for manufacturing overhead by individual items of cost which are accumulated in a cost pool allocated to final cost objectives on a direct labor base.

ACCOUNTING SYSTEM

Regulations

The following examples are illustrative of application of cost accounting practices which are deemed not to be consistent.

Practices Used for Estimating Costs for Proposals

1. Contractor estimates a total dollar amount for engineering labor which includes disparate and significant elements or functions of engineering labor. Contractor does not provide supporting data reconciling this amount to the estimates for the same engineering labor cost functions for which he will separately account in contract performance.

2. Contractor estimates engineering labor by cost function, i.e. drafting, production engineering, etc.

3. Contractor estimates a single dollar amount for machining cost to cover labor, material and overhead.

Practices Used in Accumulating and Reporting Costs of Contract

1. Contractor accounts for engineering labor by cost function, i.e. drafting, designing, production, engineering, etc.

2. Contractor accumulates total engineering labor in one undifferentiated account.

3. Contractor records separately the actual costs of machining labor and material as direct costs, and factory overhead as indirect costs.

ACCOUNTING SYSTEM

Regulations

FAR Part 99, Cost Accounting Standards.

Subpart 9904.402 -- Cost Accounting Standard Consistency in Allocating Costs Incurred for the Same Purpose

Fundamental Requirement

All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

ACCOUNTING SYSTEM

Regulations

Subpart 9904.402 -- Cost Accounting Standard Consistency in Allocating Costs Incurred for the Same Purpose

Illustrations of costs which are not incurred for the same purpose:

- (1) Contractor normally allocates special tooling costs directly to contracts. The costs of general purpose tooling are normally included in the indirect cost pool which is allocated to contracts. Both of these accounting practices were previously disclosed to the Government. Since both types of costs involved were not incurred for the same purpose in accordance with the criteria set forth in the Contractor's Disclosure Statement, the allocation of general purpose tooling costs from the indirect cost pool to the contract, in addition to the directly allocated special tooling costs, is not considered a violation of the standard.

ACCOUNTING SYSTEM

Regulations

Subpart 9904.402 -- Cost Accounting Standard Consistency in Allocating Costs Incurred for the Same Purpose

- (2) Contractor proposes to perform a contract which will require three firemen on 24-hour duty at a fixed-post to provide protection against damage to highly inflammable materials used on the contract. Contractor presently has a firefighting force of 10 employees for general protection of the plant. Contractor's costs for these latter firemen are treated as indirect costs and allocated to all contracts; however, he wants to allocate the three fixed-post firemen directly to the particular contract requiring them and also allocate a portion of the cost of the general firefighting force to the same contract. He may do so but only on condition that his disclosed practices indicate that the costs of the separate classes of firemen serve different purposes and that it is his practice to allocate the general firefighting force indirectly and to allocate fixed-post firemen directly.

ACCOUNTING SYSTEM

Regulations

FAR Part 99, Cost Accounting Standards.

Subpart 9904.405 -- Accounting for Unallowable Costs

Fundamental Requirement

- (a) Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract.
- (b) The base for allocation of any indirect cost pool relevant to the subject contract consists of direct labor, direct material, total prime cost, total cost input, etc., he must include the disallowed direct labor and material costs in his allocation base for such pool.

ACCOUNTING SYSTEM

Regulations

Subpart 9904.406 -- Cost Accounting Standard Cost Accounting Period

Fundamental Requirement

- (a) A contractor shall use this fiscal year as his cost accounting period, except that:
 - (1) Costs of an indirect function which exists for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period as provided in 9904.406-50(a).
 - (2) An annual period other than the fiscal year may, as provided in 9904.406-50(d), be used as the cost accounting period if its use is an established practice of the contractor.
 - (3) A transitional cost accounting period other than a year shall be used whenever a change of fiscal year occurs.
 - (4) Where a contractor's cost accounting period is different from the reporting period used for Federal income tax reporting purposes, the latter may be used for such reporting.

ACCOUNTING SYSTEM

Regulations

Contract Clauses

- 52.214-26 -- Audit and Records -- Sealed Bidding
- 52.215-2 -- Audit and Records -- Negotiation
- 52.216-16 -- Incentive Price Revision -- Firm Target
- 52.232-20 -- Limitation of Cost
- 52.232-22 -- Limitation of Funds
- 52.242-3 -- Penalties for Unallowable Costs
- 52.242-4 -- Certification of Final Indirect Costs

ACCOUNTING SYSTEM

Regulations

Where can a contractor obtain a current copy of the referenced regulations?

<http://farsite.hill.af.mil/vffara.htm>

CAS 48 CFR Part 9904 (FAR Appendix B) –

<http://farsite.hill.af.mil/vffara.htm> (AP1) and (AP2)

ACCOUNTING SYSTEM

DCAA Audit

What can a contractor expect from a DCAA audit of its accounting system ?

ACCOUNTING SYSTEM

DCAA Audit

Pre Award Survey of Prospective Contractor Accounting System and Post Award Accounting System Audit at Nonmajor Contractors (SF 1408)

What's the difference?

Pre Award Survey of Prospective Contractor Accounting System

- General in nature
- Gather contractor information
- Mostly discussions with contractor representatives

Post Award Accounting System Audit at Nonmajor Contractors

- In depth examination
- Gather more contractor information
- Trace cost to source documents

ACCOUNTING SYSTEM

DCAA Audit

Prior to starting its evaluation of a contractor's accounting system

Initial contact

- Inform contractor representative of the evaluation.
- Ask general questions about the contractor and its anticipated contract to determine the scope of the evaluation.
- Provide a copy of the Internal Control Questionnaire (ICQ) which gathers information such as:
 - Contact information
 - Sales
 - Owners
 - Facilities
 - Internal controls/policies and procedures
 - Type and brand of accounting system.

ACCOUNTING SYSTEM

DCAA Audit

- Other information
- Organization Chart
- Chart of Accounts
- Trial Balance for the last complete year
- Financial Statements for the last complete year
- Tax Returns for the last complete year

ACCOUNTING SYSTEM

DCAA Audit

(SF 1408)

- Generally accepted accounting principles
- Proper segregation of costs
- Direct costs by contract
- Allocation of indirect costs
- Accumulation of costs under general ledger control
- Timekeeping system
- Labor distribution
- Interim determination of costs
- Exclusion of unallowable cost
- Costs by contract line item
- Segregation of preproduction costs from production costs
- Limitation of costs
- Billings
- Adequate/Reliable Data
- Accounting system in operation

ACCOUNTING SYSTEM

DCAA Audit

Generally Accepted Accounting Principles.

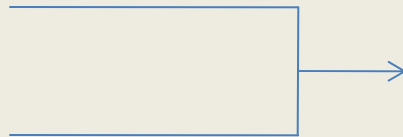
Through observation or discussion, verify that the contractor's accounting system is in accordance with GAAP. Determine if the contractor has or intends to have an accrual basis accounting system. (SF 1408, Section I)

ACCOUNTING SYSTEM

DCAA Audit

(SF 1408)

- Generally accepted accounting principles
- Business Entity
- Objectivity
- Cost
- Going-Concern
- Monetary Unit
- Revenue
- Time Period
- Matching
- Materiality
- Full Disclosure
- Consistency
- Conservatism



Accrual Basis Accounting – uses the adjusting process to recognize revenues when earned and to match expenses with revenues. This means the economic effects of revenues and expenses are recorded when earned or incurred, not when cash is received or paid.

ACCOUNTING SYSTEM

DCAA Audit

Proper segregation of costs.

- Verify that controls exist to preclude direct charging of indirect expense and indirect charging of direct contract costs. (SF 1408, Section II, 2a)

Direct costs by contract.

- Verify that the contractor has either a subsidiary job costs ledger or account receivable ledger which accumulates costs by contract at a level of detail consistent with that used by the prospective contractor in its proposal. (SF 1408, Section II, 2b)

Allocation of indirect costs.

- Verify that the indirect costs are accumulated in logical groupings and determine that the groupings are allocated based on benefits accrued to intermediate and final cost objectives. Is the cost accounting system formally documented, with a written description of the contents of bases and pools? (SF 1408, Section II, 2c)

ACCOUNTING SYSTEM

DCAA Audit

Accumulation of costs under general ledger control.

- Verify that the contractor's job cost ledger and other books of account are reconcilable and currently posted to the general ledger control accounts. (SF 1408, Section II, 2d)

Timekeeping system.

- Verify that labor is charged to intermediate and final cost objectives based on a timekeeping document (paper or electronic timecards) completed and certified by the employees and approved by the employees' supervisors. (SF 1408, Section II, 2e)

Labor distribution.

- Verify that labor cost distribution records are reconcilable to payroll records and that labor distribution records trace to and from the cost accumulation records in labor subsidiary or general ledger accounts. (SF 1408, Section II, 2f)

ACCOUNTING SYSTEM

DCAA Audit

Interim determination of costs.

- Determine that the contractor posts contract costs at least monthly to books of account. (SF 1408, Section II, 2g)

Exclusion of Unallowables.

- Evaluate the contractor's plan to identify and exclude unallowable cost if the contract is awarded. (FAR 31.2016) (SF 1408, Section II, 2h)

Costs by Contract Line Item:

- Can the system be expanded to the requisite level of detail, and does the contractor have procedures to determine what this level might be? (SF 1408, Section II, 2i)

Preproduction Costs

- (Applies primarily to manufacturing contracts): Are these costs routinely segregated to assist in repricing or follow-on contract pricing? (SF 1408, Section II, 2j)

ACCOUNTING SYSTEM

DCAA Audit

Limitation of Costs:

- Can the interim indirect expense rates be readily calculated from the books of accounts, and are the interim rates routinely monitored? Who is responsible for monitoring total contract expenditure against contract limitations on price or cost, and how frequently is this reviewed? Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16 or FAR 52.232-20, -21 and -22? (SF 1408, Section II, 3a)

Billings

- (e.g. progress payments, public vouchers): Does the contractor have controls or procedures that would provide that interim billings of direct cost are prepared directly from the books and records, excluding unallowable costs. Does the contractor have procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and conditions of the subcontract or invoice and ordinarily within 30 days of the contractor's payment request to the Government? Can billings be reconciled to the cost accounts for both current and cumulative amounts claimed? (SF 1408, Section II, 3b)

ACCOUNTING SYSTEM

DCAA Audit

Adequate, Reliable Data:

- Is the contractor's system capable of producing cost information at a sufficient level of detail for use in pricing follow-on contracts. (SF 1408, Section II, 4)

Accounting system in operation.

- Is the accounting system in full operation? If not, which portions are in operation and what is the status of implementing the full accounting system? (SF 1408, Section II, 5)

ACCOUNTING SYSTEM

DCAA Audit

Audit Report Opinions.

- Adequate
- Inadequate – Conditions and Recommendations

DCAA Help.

- Limited

ACCOUNTING SYSTEM

DCAA Audit

Financial Capability Risk Assessment/Audit.

- Contracting Officer staff may perform Financial Capability Risk Assessment
- Contracting Officer may request DCAA to perform a Financial Capability Risk Assessment

Financial condition risk assessments or financial capability audits are performed to determine if the contractor is financially capable of performing on Government contracts. These risk assessments or audits may be performed during the preaward or post contract award periods. The type of financial information examined by DCAA consists of such data as: (1) financial statements, including those contained in reports issued to stockholders, lending institutions, and SEC filings, (2) cash flow forecasts, (3) loan agreements and evidence showing compliance with these agreements, (4) aging of accounts receivable and payable, and (5) financial history of the contractor and affiliated concerns, and (6) employee payroll tax returns (Federal). Based on this information, the auditor will make a recommendation to the contracting officer regarding whether or not a contractor has sufficient financial resources to perform the contract.

ACCOUNTING SYSTEM

DCAA Audit

Detailed Risk Assessment.

- Trend Analysis of Key Financial Statement Elements
- Profit/Loss
- Sales
- Cash Flow from
- Operating activities
- Investing activities
- Financing activities
- Working Capital (Current assets minus current liabilities)
- Net Worth (Total assets minus total liabilities)
- Long-term Liabilities

ACCOUNTING SYSTEM

DCAA Audit

If consistent unfavorable or adverse trends are noted, obtain and verify any explanation from the contractor and any actions being taken to improve the condition.

If actions being taken to improve the condition are considered inadequate, a financial capability audit may be warranted. If so, DCAA would perform detailed analysis of the contractor's financial condition which would include:

- Cash Flow Projections
- Liquidation Of Accounts Payable
- Loan Covenants
- Bankruptcy
- Other Potential Conditions
- Litigation
- Unusual agreements with the Internal Revenue Service
- Vendor requirements for Cash or Delivery payments
- Production delays
- Contract overruns
- Labor disputes, etc.

ACCOUNTING SYSTEM

DCAA Audit

Where can a contractor obtain information related to DCAA?

<http://www.dcaa.mil>

ACCOUNTING SYSTEM

Commercially Available Accounting Systems

QuickBooks Pro and Premier

Peachtree Complete Accounting and Premium Accounting

Deltek GovStart and GCS Premier

SAP

Baan

Relatively
inexpensive

Moderately
expensive

Expensive

ACCOUNTING SYSTEM

Conclusion

If a contractor wants to contract with the federal government, it can expect to demonstrate that its accounting system is adequate to accumulate costs under government contracts at some point in time.

The general concepts related to an adequate accounting system are relatively easy to learn. However, each contractor is different than all other contractors. As a result, implantation of those concepts can be relatively complex, time consuming and labor intensive.

ACCOUNTING SYSTEM

Conclusion

The examination of a contractor's accounting system is only the tip of the iceberg. Once a contract is awarded, many more audits may be initiated by the contracting officer or the cognizant DCAA office.

- Progress payment requests
- Labor floor checks and material verification checks
- Forward pricing and billing direct and indirect rates
- Annual incurred cost and indirect rate proposals

As a company grows, more and more types of audits will be performed. If it becomes a major contractor, DCMA and DCAA will have offices in your facilities and audit will be on an ongoing basis.

ACCOUNTING SYSTEM

Conclusion

The information in this presentation is general in nature and not directed to any specific company. If a company has specific concerns, M.A. Sullivan Consulting, Inc. is available for a fee. Fees are on an hourly basis and are comparable to most Certified Public Accountant fees.

Thank you for your time and interest.

ACCOUNTING SYSTEM

Conclusion

Is it worth all the effort?

Yes!!

I've seen many small businesses grow from one or two person operations to 100 person operations.

Most, if not all, large businesses began as small business.

ACCOUNTING SYSTEM

Conclusion

Contact Information

Martin A. Sullivan, President

M.A. Sullivan Consulting, Inc.

6288 Autumn Berry Circle

Jacksonville, FL 32258-8413

(904) 210-9973

ma.sullivanconsulting@comcast.net